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FM AMEMBASSY NDJAMENA

TO RUEHC/SECSTATE WASHDC IMMEDIATE 7160
RUCNFUR/DARFUR COLLECTIVE PRIORITY
RUEHEE/ARAB LEAGUE COLLECTIVE PRIORITY
RUEHZO/AFRICAN UNION COLLECTIVE PRIORITY
RHMFSS/HQ USAFRICOM STUTTGART GE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 NDJAMENA 000338

SIPDIS

SENSITIVE

E.O. 12958: N/A

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SUBJECT: CHAD AND ESSO/CHAD: PROTECTING A SIGNIFICANT AMERICAN INVESTMENT AND CHAD'S PUBLIC FINANCES

REF: NDJAMENA 194

SUMMARY

¶11. (SBU) OVER THE PAST TWO WEEKS, AMBASSADOR NIGRO WORKED WITH ESSO/CHAD HEAD STEPHANE DE MAHIEU IN WHAT THEY BELIEVE WAS A SUCCESSFUL EFFORT TO PROTECT THE MOSTLY U.S.-OWNED PETROLEUM PRODUCTION AND PIPELINE PROJECT FROM UNCOORDINATED GOC ACTIONS AND AT THE SAME TIME, TO PROTECT THE GOC FROM ITSELF. JOINT DEMARCHE TO THE PRIME MINISTER AND SECRETARY-GENERAL OF THE PRESIDENCY CAUSED THE GOC TO SHELF PLANS TO IMPLEMENT CHANGES TO ITS FOREIGN WORK PERMIT POLICY THAT WOULD HAVE RESULTED IN EXODUS OF ESSO'S EXPERT FOREIGN STAFF AND RAPID REDUCTION OF OIL PRODUCTION, STARTING AS EARLY AS SEPTEMBER.

¶12. (SBU) THE CHAD-CAMEROON PETROLEUM PIPELINE PROJECT IS THE BIGGEST SINGLE AMERICAN PRIVATE-INDUSTRY INVESTMENT IN SUBSAHARAN AFRICA AND THE U.S. ECONOMY BENEFITS TO THE TUNE OF MORE THAN 1,000 AMERICAN JOBS CREATED, 83 MILLION USD IN PERSONAL INCOME GENERATED, AND OVER TWO BILLION USD OF PROFIT RETURNED TO U.S. SHAREHOLDERS THROUGH DIVIDENDS. CHAD DEPENDS ON THE REVENUES IT GETS FROM THE PROJECT FOR 75 PERCENT OF ITS PUBLIC REVENUES. REDUCED PRODUCTION IN THE SHORT TERM AND REDUCTION OR ELIMINATION OF FUTURE PLANNED INVESTMENT BY THE CONSORTIUM IN THE LONGER TERM WOULD BE DEVASTATING TO CHAD'S FINANCES AND HAVE A NEGATIVE IMPACT ON U.S. INDUSTRY. THE EQUITIES OF BOTH THE U.S. AND CHAD ARE PROTECTED BY CONTINUED CLOSE COLLABORATION BETWEEN EXXON-MOBIL AND THE GOC. END SUMMARY.

¶13. (SBU) DE MAHIEU UPDATED AMBASSADOR JULY 31 ON AN ISSUE THAT HAD THE POTENTIAL TO REDUCE PETROLEUM PRODUCTION WITHIN A SHORT TIME. THE MINISTRY OF LABOR HAD BEEN PUSHING A SCHEME TO (A) INCREASE THE NUMBER OF CHADIAN PROFESSIONALS IN THE EMPLOY OF FOREIGN FIRMS OPERATING IN CHAD AND (B) CHARGE A FEE EQUAL TO A FOREIGN EMPLOYEE'S MONTHLY SALARY INSTEAD OF A FIXED WORK PERMIT CHARGE EQUAL FOR ALL FOREIGN EMPLOYEES, REGARDLESS OF SALARY.

¶14. (SBU) ESSO/CHAD WAS SUCCESSFUL IN SHOWING THE GOC, INCLUDING THE LABOR MINISTRY, THAT INCREASING THE NUMBER OF CHADIAN PROFESSIONALS IN THE EMPLOY OF ESSO IN CHAD WOULD (A) BE IMPOSSIBLE OR (B) RESULT IN A "BRAIN DRAIN" FROM CRITICAL CHADIAN GOVERNMENT CADRES TO ESSO/CHAD, WHICH THE GOC ACCEPTED AS UNDESIRABLE.

¶15. (SBU) THE SECOND ISSUE, THE LABOR MINISTRY'S PUSH TO GOC'S CHARGE A FEE EQUAL TO A FOREIGN EMPLOYEE'S MONTHLY SALARY INSTEAD OF A FIXED CHARGE EQUAL FOR ALL FOREIGH EMPLOYEES, REGARDLESS OF SALARY, CONTINUED TO WORK ITS WAY THROUGH THE GOC BUREAUCRACY. DE MAHIEU TOLD AMBASSADOR THAT ESSO/CHAD WOULD NOT BUDGE ON THE ISSUE OF THE WORK PERMIT PRICE HIKE, NOT ONLY BECAUSE IT WOULD CREATE A PRECEDENT IN WHICH OTHER AFRICAN COUNTRIES WHERE EXXON MOBIL OPERATED COULD FOLLOW SUIT BUT ALSO BECAUSE IT VIOLATED SIGNED CONTRACTS AND CONVENTIONS. IF THE GOC ACTED ON THE WORK PERMITS, ESSO/CHAD WOULD TAKE THE CASE TO THE INTERNATIONAL CHAMBER OF

COMMERCE IN PARIS, BUT THAT WAS A REMEDY THAT WOULD TAKE TIME. IF THE GOC ACTED, ESSO/CHAD WOULD ALSO START TO SEND ITS EXPERT FOREIGN STAFF HOME AS THEIR OLD PERMITS EXPIRED, STARTING AUGUST 15. WITHOUT THAT STAFF, OIL PRODUCTION WOULD SOON START TO DECREASE. IN ADDITION, PENDING CONSORTIUM DECISIONS TO MAKE SIGNIFICANT NEW INVESTMENTS IN CHAD WOULD BE CALLED INTO QUESTION.

¶6. (SBU) AMBASSADOR PROPOSED THAT THE USG AND ESSO DO A JOINT DEMARCHE, FIRST TO THE PRIME MINISTER AND THEN TO HAROUN KABADI, SECRETARY GENERAL OF THE PRESIDENCY (GENERALLY EQUIVALENT TO THE WHITE HOUSE CHIEF OF STAFF). AMBASSADOR AND DE MAHIEU SAW THE PM ON AUGUST 5 AND PRESENTED ESSO'S CASE. THE PM LISTENED INTENTLY, RESPONDED SYMPATHETICALLY, AND PROMISED TO TAKE ACTION. IN ANY EVENT, HOWEVER, THE LABOR MINISTRY'S PUSH TO CHANGE FOREIGN WORK PERMITS CONTINUED TO MAKE ITS WAY THROUGH THE BUREAUCRATIC CHAIN. AMBASSADOR AND DE MAHIEU FOLLOWED WITH AN AUGUST 7 PITCH TO SEC-GEN KABADI. KABADI, A FORMER PM AND DEEPLY VERSED IN THE POLITICS OF OIL IN CHAD, DEMONSTRATED THAT HE GOT IT. HE SAID THAT THE PRESIDENCY DID NOT HAVE ALL THE ELEMENTS NECESSARY TO MAKE A DECISION AND MANY OF THE DOCUMENTS CITED BY DE MAHIEU HAD NOT BEEN COPIED TO THE PRESIDENCY BY THE MINISTRIES INVOLVED. HE SAID FURTHER THAT THIS WAS AN IMPORTANT MATTER THAT SHOULD NOT BE RUSHED. HE ASKED DE MAHIEU TO SEND HIM COPIES OF ALL THE RELEVANT DOCUMENTS AND CORRESPONDENCE BETWEEN ESSO/CHAD AND THE GOC.

¶7. (SBU) ON AUGUST 10, DE MAHIEU TOLD AMBASSADOR THAT HE UNDERSTOOD THAT THE GOC HAD DEFERRED ANY DECISION ON THE QUESTION OF FOREIGN WORK PERMITS UNTIL THE END OF THE YEAR, PENDING MUCH FURTHER STUDY AND NEGOTIATIONS BETWEEN THE GOC AND ESSO/CHAD. ON AUGUST 12, KABADI CALLED THE AMBASSADOR TO RELATE THAT NY GOC DECISION ON THE ISSUE OF WORK PERMITS HAD BEEN DEFERRED PENDING FURTHER STUDY.

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WHAT THE PROJECT MEANS
FOR THE U.S. ECONOMY

¶8. (SBU) THE CHAD/CAMEROON PIPELINE PROJECT REPRESENTS THE LARGEST U.S. INVESTMENT IN SUBSAHARAN AFRICA. THE U.S. ECONOMY IS THE MAJOR BENEFICIARY FROM THIS PROJECT WHICH HAD GENERATED OVER 1,000 AMERICAN JOBS AND 83 MILLION USD IN PERSONAL INCOME. OVER 50 PERCENT OF THE PROJECT'S MATERIAL PURCHASES AND CONTRACTED LABOR ARE SOURCED FROM THE U.S. TO DATE, OVER TWO BILLION USD OF PROFIT HAS BEEN RETURNED TO U.S. SHAREHOLDERS THROUGH DIVIDENDS.

WHAT THE PROJECT
MEANS FOR CHAD

¶9. (SBU) OIL INCOME, THROUGH ROYALTIES OR EXPORT DUTIES, ACCOUNTS FOR 75 PERCENT OF THE GOC'S REVENUE. THE AUTUMN 2008 DECLINE IN OIL PRICES TRIGGERED A 2009 GOC REVENUE CRISIS, AS THE GOC HAD BUDGETED A MUCH HIGHER DOLLAR-VALUE PER BARREL AND HAD MADE PUBLIC SPENDING COMMITMENTS BASED ON THE HIGHER REVENUE STREAM. UNWILLING TO CUT INFRASTRUCTURE COMMITMENTS, THE REVISED 2009 BUDGET, BASED ON A LOWER PER-BARREL PRICE OF OIL, LEAVES THE GOC A 840 MILLION USD DEFICIT.

COMMENT

¶10. (SBU) THE CHAD-CAMEROON OIL PIPELINE PROJECT IS THE BIGGEST SINGLE U.S. PRIVATE INDUSTRY INVESTMENT IN SUBSAHARAN AFRICA. CHAD DEPENDS ON THE REVENUES IT GETS FROM THE PROJECT FOR THE VAST MAJORITY OF ITS PUBLIC REVENUES. REDUCED PRODUCTION IN THE SHORT TERM AND REDUCTION OR ELIMINATION OF FUTURE PLANNED INVESTMENT BY THE CONSORCIO IN THE LONGER TERM WOULD BE DEVASTATING TO CHAD'S FINANCES AND HAVE A NEGATIVE IMPACT ON THE U.S. ECONOMY. THE EQUITIES OF BOTH THE U.S. AND CHAD ARE PROTECTED BY CONTINUED CLOSE COLLABORATION BETWEEN EXXON-MOBIL AND THE GOC.

NIGRO